

Attachment

GOVERNMENT CREDIT IN EAST-WEST TRADE^{1/}

1. Credit is an aspect of East-West trade which has never been the subject of international control. No evidence has been found to indicate that government credit facilities of COCOM countries have been granted to finance embargoed goods. On the other hand, for trade in COCOM items within quota limits or under surveillance, credit arrangements have generally been available on the same conditions as for non-strategic trade with the Bloc, or for trade between Free World countries. It is important to note that the Bloc's financial resources do not appear to be a limiting factor in their procurement of strategic imports.

2. Governmental credit facilities extended by most Western European countries and Canada include principally:

a. Government Credit Guarantees: Private exporters may obtain insurance from government institutions, against some commercial, financial, and political risks, on credit extended by them to foreign importers. Generally credit guarantees are available only for credits of five years or less. The United States, as a matter of policy, does not extend Export-Import Bank credit insurance on exports to the Bloc. Credit guarantees are particularly important for those countries such as the United Kingdom and Canada which do not have bilateral trade agreements including "swing" credit arrangements with the Bloc.

b. Government "Swing" Credits: "Swing" credits in bilateral trade and payments agreements provide that either party, during the course of the agreement, may import more than it exports to the other, up to a stipulated amount known as the "swing". It is usually provided that trade must be balanced periodically by shipments of commodities or by settlement in cash. These arrangements have resulted in the extension of considerable short-term credit to the Bloc.

c. Medium Term Government Loans: In addition to "swing" credit arrangements in trade agreements, special credits are sometimes granted Bloc countries by Western governments to

^{1/} This resume is based on a paper prepared in EDAC Working Group I, and approved by ED/EC, on "The Role of Government Credit in East-West Trade", EDAC D-112, 5 March 1956.

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finance specific exports from the West. Normally they are separate from the relevant trade agreements. Such credits have also been provided by countries having no "swing" credit arrangements. These special credits have usually run from one to two years on agricultural products, and from three to ten years on capital goods. Unlike most "swing" credits, they usually bear interest and are payable in specified currencies or gold.

d. Long Term Government Loans: Long term government-to-government loans have usually related to exports for major capital goods projects and public works, and payments have been made over a period of ten to twenty years or longer.

3. The following table indicates the estimated total of credits outstanding to the Bloc and the amount of net new credits made available for each of the years indicated:

<u>Estimated Trade Credits to the Soviet Bloc^{1/}</u> (millions of U.S. dollars)				
<u>Total Credits Outstanding</u> (end of year)				
	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Private Credits				
(a) As measured by government credit guarantees	50	75	85	95
Government to Government Credits				
(b) Swing credits in trade agreements	140	140	160	180
(c) Medium term loans	25	30	40	50
(d) Long term loans	<u>110</u>	<u>110</u>	<u>100</u>	<u>90</u>
Total	325	355	385	415

<u>Net New Credits Made Available and Utilized During Year</u>			
	<u>1955</u>	<u>1956</u>	<u>1957</u>
Private Credits			
(a) As measured by government credit guarantees	25	10	10
Government to Government Credits			
(b) Swing credits in trade agreements	0	20	20
(c) Medium term loans	5	10	10
(d) Long term loans	<u>0</u>	<u>-10</u>	<u>-10</u>
Total	30	30	30

^{1/} Based on data available through 1954.

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4. As indicated in the preceding table, in the post-war period up to the end of 1954 the Soviet Bloc had received imports to the extent of \$325 million which had been financed by the extension of credits, and for which it had not paid in exports or gold.

5. Net new credits to the Soviet Bloc averaging \$30 million annually would have very little impact on the Bloc economy, representing as they do only about two percent of their imports from the Free World (estimated at \$1.7 billion in 1954).

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